



**AP[®] Macroeconomics
2010 Free-Response Questions
Form B**

Hanlin.io
翰林学院

The College Board

The College Board is a not-for-profit membership association whose mission is to connect students to college success and opportunity. Founded in 1900, the College Board is composed of more than 5,700 schools, colleges, universities and other educational organizations. Each year, the College Board serves seven million students and their parents, 23,000 high schools, and 3,800 colleges through major programs and services in college readiness, college admission, guidance, assessment, financial aid and enrollment. Among its widely recognized programs are the SAT[®], the PSAT/NMSQT[®], the Advanced Placement Program[®] (AP[®]), SpringBoard[®] and ACCUPLACER[®]. The College Board is committed to the principles of excellence and equity, and that commitment is embodied in all of its programs, services, activities and concerns.

© 2010 The College Board. College Board, ACCUPLACER, Advanced Placement Program, AP, AP Central, SAT, SpringBoard and the acorn logo are registered trademarks of the College Board. Admitted Class Evaluation Service is a trademark owned by the College Board. PSAT/NMSQT is a registered trademark of the College Board and National Merit Scholarship Corporation. All other products and services may be trademarks of their respective owners. Permission to use copyrighted College Board materials may be requested online at: www.collegeboard.com/inquiry/cbpermit.html.

Visit the College Board on the Web: www.collegeboard.com.

AP Central is the official online home for the AP Program: apcentral.collegeboard.com.

2010 AP[®] MACROECONOMICS FREE-RESPONSE QUESTIONS (Form B)

MACROECONOMICS

Section II

Planning Time—10 minutes

Writing Time—50 minutes

Directions: You have 50 minutes to answer all three of the following questions. It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions. In answering the questions, you should emphasize the line of reasoning that generated your results; it is not enough to list the results of your analysis. Include correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes. Use a pen with black or dark blue ink.

1. A country's economy is in a short-run equilibrium with an output level less than the full-employment output level. Assume an upward-sloping aggregate supply curve.
 - (a) Using a correctly labeled aggregate demand and aggregate supply graph, show the following.
 - (i) Full-employment output, labeled as Y_F
 - (ii) Equilibrium real output and price level, labeled as Y_E and PL_E , respectively
 - (b) Assume that the country's government increases domestic military expenditures. On the graph from part (a), show how the increased military expenditures affect the following in the short run.
 - (i) Aggregate demand
 - (ii) Equilibrium real output and price level, labeled as Y_2 and PL_2 , respectively
 - (c) Using a correctly labeled graph of the short-run Phillips curve, show the effect of the increased military expenditures in the short run, labeling the initial point as A and the new point as B.
 - (d) Assume that the increased military spending is financed through government borrowing. What will happen to the real interest rate? Explain.
 - (e) Assume that the economy produces only two goods: military goods and civilian goods. Using a correctly labeled production possibilities curve, show the effect of the increase in military expenditures from part (b), labeling the initial point as C and the new point as D.

2010 AP[®] MACROECONOMICS FREE-RESPONSE QUESTIONS (Form B)

2. The central bank of the country of Sewell sells bonds on the open market.
- (a) Assume that banks in Sewell have no excess reserves. What is the effect of the central bank's action on the amount of customer loans that banks in Sewell can make?
 - (b) Using a correctly labeled graph of the money market, show the effect of the central bank's action on the nominal interest rate in Sewell.
 - (c) What is the effect of the central bank's action on each of the following in Sewell?
 - (i) Price level
 - (ii) Real interest rate. Explain.
 - (d) Given your answer in part (c)(ii), how is the international value of Sewell's currency, the ono, affected? Explain.
3. How does each of the following changes affect the real gross domestic product and price level of an open economy in the short run? Explain each.
- (a) An increase in the price of crude oil, an important natural resource
 - (b) A technological change that increases the productivity of labor
 - (c) An increase in spending by consumers
 - (d) The depreciation of the country's currency in the foreign exchange market

Hanlin.io
翰林学院

STOP
END OF EXAM

